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10 March 1964

VINSON SUBCOMMITTEE BRIEFING

PANAMA

I. In Panama, economic and conservative pressures on President Chiari to end the canal deadlock are growing, but we have no hard evidence that his government is ready to accept any compromise formula for resuming diplomatic relations with us.

A. A number of initiatives aimed at a settlement are still under way, in the Organization of American States and through other channels.

1. There has been considerable optimism in the press as a result of the statement by Chiari that President Johnson's press conference remarks February 29 might provide a basis for settlement.

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2.

B. In our evaluation, Chiari's inconsistent behavior and his susceptibility to extremist advisers still dominates the picture.

1. Chiari reiterated two weeks ago that the US must agree to revise the canal treaties before diplomatic relations can be resumed.

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maintaining his image as the president who refused to compromise over Panama's demands in regard to the Canal Zone. It is quite possible that he fears the reaction of the forces he has unleashed if he does compromise.

3. The Panamanian ambassador to the OAS, Moreno, has given his own presidential ambitions a big boost. His extremism is complicating not only the OAS action but other mediation efforts.

II. Most Latin American countries have reacted unfavorably to Panama's invocation of the Rio Treaty.

A. As the impasse continues, however, they are more and more likely to criticize us for "lack of reasonableness."

B. The long history of Latin criticism of the US predisposes these countries to support Panama's desire for sovereignty and a bigger slice of the Canal's revenues.

III. The mood of angry nationalism will continue to dominate the political situation inside Panama.

A. The extremists will become increasingly influential.

B. Elections come up in May, and the Canal crisis has made campaigning even more chaotic than normal.

The imminence of the election works in favor of the rapid consolidation of pro-Castro and Communist influence over the nationalist movement.

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- C. Coup rumors have abated. Arnulfo Arias, probably the most popular presidential candidate, might try to oust the government if he concludes that the ruling group and the National Guard would cheat him out of an electoral victory.
- D. The Communists are capitalizing on the current situation rapidly and effectively. They have strengthened their organizations. They have expanded their influence in the government, in news media, and in most of the nationalist mass organizations.
  - 1. Castroites and the orthodox Communists in Panama worked together effectively for the first time when they used all their assets to snowball the disturbances in early January and keep them going. In the past, squabbling between the two groups had kept them largely ineffective.
  - 2. They now are making coordinated efforts to exploit the surge of nationalistic emotion and to keep the Canal Zone issue at a boil.
  - 3. The Communists are showing a new realism. They may next try to discredit the oligarchy. They may feel that further violence and revolutionary effort could provoke a stronger US reaction.

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IV. The Panamanian economic and financial situation has suffered serious damage. The greatest setback so far has been the withdrawal of almost \$30 million in capital deposits. Commercial and industrial activity is in a steady decline.

A. Because of the close economic ties between the United States and Panama, the blame for economic repercussions will be directed primarily at the United States.